



January 2024

DOD EDUCATION ACTIVITY

Civilian Payroll Remediation Continues

Accessible Version

GAO Highlights

Highlights of [GAO-24-105679](#), a report to congressional committees

Why GAO Did This Study

A committee report accompanying a national defense authorization bill for fiscal year 2022 includes a provision for GAO to review DOD's payroll system for overseas DOD Education Activity employees. This report (1) describes the status of DOD's efforts to address auditors' prior recommendations to improve its civilian payroll system, which includes overseas DOD Education Activity employees, and (2) examines the process DOD used to calculate overseas DOD Education Activity employees' pay, including base pay, differentials, additional allowances, and deductions, as well as how the department communicated payroll changes to employees.

GAO reviewed an extract from a database containing all civilian payroll notices of findings and recommendations as of March 2023 to report on the status of prior recommendations. GAO also examined fiscal year 2021 payroll records (the most recent available at the time of GAO's analysis) and interviewed DOD representatives to gain an understanding of the payroll process. GAO traced payroll records for 10 employees to supporting documentation and verified the calculations using applicable criteria. GAO also reviewed payroll adjustments for 24 employees that were the result of either normal adjustments or payroll errors. Since DOD was not able to provide sufficient supporting documentation timely, the number of DOD Education Activity employees that GAO was able to review was too small to support generalizable conclusions.

View [GAO-24-105679](#). For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

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DOD EDUCATION ACTIVITY

Civilian Payroll Remediation Continues

What GAO Found

The Department of Defense's (DOD) Education Activity operates schools around the world, providing educational services for the dependents of military service members and civilian employees. Since fiscal year 2018, independent public accounting firms auditing DOD's annual financial statements have reported more than 100 notices of findings and recommendations across the department related to the civilian payroll system. Many of these notices remain open and affect the pay of all DOD employees, including overseas civilian employees.

DOD Civilian Payroll Notices of Findings and Recommendations, as of March 2023

Total	Closed	No longer applicable	Open
147	92	8	47

Source: GAO analysis of DOD data on notices auditors issued since fiscal year 2018. | GAO-24-105679

Closed notices addressed issues such as approving and maintaining time cards, gross pay reconciliation, and unsupported payroll allowances for some components of DOD. Some common issues identified in the open notices are (1) inconsistent documentation supporting employees' payrolls and (2) payroll amounts not agreeing with calculations based on supporting documentation. These open issues are similar to instances GAO observed, as discussed below. DOD has developed corrective action plans and roadmaps to remediate these open notices, but they will take time to effectively implement and address the issues that other auditors and GAO found.

DOD Education Activity uses the Civilian Human Resources Agency and the Defense Finance and Accounting Service to perform human resources and payroll processing. DOD bases payroll computations on various requirements and must support payments with one or more source documents.

GAO reviewed payroll records for 10 overseas DOD Education Activity employees. GAO found that the records for regular pay and incentives were accurate and contained adequate supporting documentation. GAO also found that of the five employees receiving allowances—such as for their living quarters—the amounts paid to three were inconsistent with the supporting documentation. In addition, GAO found that for eight of these 10 employees, at least one payroll deduction was not adequately supported.

GAO also reviewed payroll records for 24 employees and found that 21 had adjustments that were not all processed timely or communicated adequately. The department processed 57 adjustments for the 21 employees' pay, 23 of which were retroactive, paid in a lump sum, and without many details provided on the employees' earnings and leave statements. The amount of time it took to process the adjustments ranged from a low of one biweekly pay period to a high of 34 biweekly pay periods. According to Defense Finance and Accounting Service officials, these delays are attributable to retroactive pay adjustments, corrective actions initiated by human resources offices or timekeepers, or employee-generated changes that were not sent timely for processing.

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Abbreviations

CHRA	Civilian Human Resources Agency
CIVPAY	civilian payroll
DAI	Defense Agency Initiative
DAPS	DODEA Allowance Processing System
DCPDS	Defense Civilian Personnel Data System
DCPS	Defense Civilian Pay System
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
DODEA	Department of Defense Education Activity
DSSR	Department of State Standardized Regulations
FMR	Financial Management Regulation
LQA	living quarters allowance
NARA	National Archives and Records Administration
NDAA	National Defense Authorization Act
NFR	notice of findings and recommendations
OPM	Office of Personnel Management
PA	post allowance
TSP	Thrift Savings Plan

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January 29, 2024

The Honorable Jack Reed
Chairman
The Honorable Roger Wicker
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Mike Rogers
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

Since 1995, GAO has designated the Department of Defense’s (DOD) financial management as high risk because of pervasive deficiencies in its financial management systems, business processes, internal controls, and financial reporting.¹ The fiscal year 2014 National Defense Authorization Act (NDAA) required the Secretary of Defense to ensure that a full audit was performed on DOD’s fiscal year 2018 financial statements.² After years of working toward financial statement audit readiness, DOD underwent annual consolidated financial statement audits starting in fiscal year 2018.³ These annual audits resulted in disclaimers of opinion at the DOD consolidated level and for many DOD components.⁴ During the course of these audits, DOD auditors identified many material weaknesses in internal controls that thousands of notices

¹GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

²Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (Dec. 26, 2013). The National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538 (Dec. 12, 2017), repealed this provision, instead enacting a permanent requirement for annual DOD financial statement audits, now codified as section 240a of Title 10, United States Code.

³The DOD agency-wide financial statements, referred to as DOD consolidated financial statements, include the financial activity from DOD components, consolidated to create one set of financial statements.

⁴A disclaimer of opinion results when an auditor does not have sufficient evidential matter to express an opinion.

of findings and recommendations (NFR) supported.⁵ DOD remains the only major federal agency that has never been able to receive an unmodified audit opinion (also referred to as a clean audit opinion) on its financial statements.⁶

In addition to the military departments, DOD's consolidated financial statements include other Defense Agencies and DOD Field Activities established as DOD Components that provide supplies and service activities common to more than one Military Department when it is more effective, economical, or efficient to do so. Each of the 19 Defense Agencies and eight DOD Field Activities operate under the authority, direction, and control of the Secretary of Defense. One such Field Activity is DOD Education Activity (DODEA), which operates schools for the dependents of military service members and civilian employees. DODEA uses two service providers—the Civilian Human Resources Agency (CHRA) and the Defense Finance and Accounting Service (DFAS)—to perform its human resources and payroll processing services, respectively. DOD employs more than 770,000 federal civilian employees, including over 12,000 DODEA employees, whose pay is processed through the DFAS civilian payroll system.

A committee report accompanying a bill for the NDAA for fiscal year 2022 includes a provision for us to review DOD's payroll system for overseas DODEA employees. Our report (1) describes the status of DOD's efforts to address auditors' prior recommendations to improve its civilian payroll (CIVPAY) system, which includes overseas DODEA employees, and (2) examines the process DOD used to calculate overseas DODEA employees' pay, including base pay, differentials, additional allowances, and deductions, as well as how DOD communicated these changes to employees.⁷

⁵A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. NFRs outline the condition, criteria, cause, effect, and recommendation(s) to correct specific issue(s) auditors identified in connection with DOD and component financial statements audits.

⁶An auditor expresses an unmodified audit opinion (or clean opinion) when the auditor concludes that the financial statements are presented fairly, in accordance with U.S. generally accepted accounting principles.

⁷Per DFAS, DOD's CIVPAY system consists of various DOD Component Civilian Personnel/Human Resource processes, and other related procedures and systems.

To address our first objective, we obtained a data extract containing all CIVPAY NFRs as of March 2023 from the NFR Database, which contains NFR information that DOD's financial statement auditors provide to the Office of the Deputy Chief Financial Officer.⁸ Using filters on the NFR category field, we extracted for our analysis those NFRs identified as CIVPAY and those related to CIVPAY.

To address our second objective, we interviewed DODEA, CHRA, and DFAS representatives to gain an understanding of the payroll process. We requested, received, and reviewed supporting data from CHRA on the DODEA overseas employees paid in fiscal year 2021.⁹ We performed a detailed review of 10 DODEA payroll records and the supporting documents to better understand the DODEA payroll process. We traced additions and subtractions of pay to authorizing source documents and verified the calculations using applicable criteria. Further, we reviewed records of 24 overseas DODEA employees for adjustments made to regular pay during fiscal year 2021 that were the result of either normal adjustments or payroll errors. For more information on our scope and methodology, see appendix I.

We conducted this performance audit from January 2022 to January 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

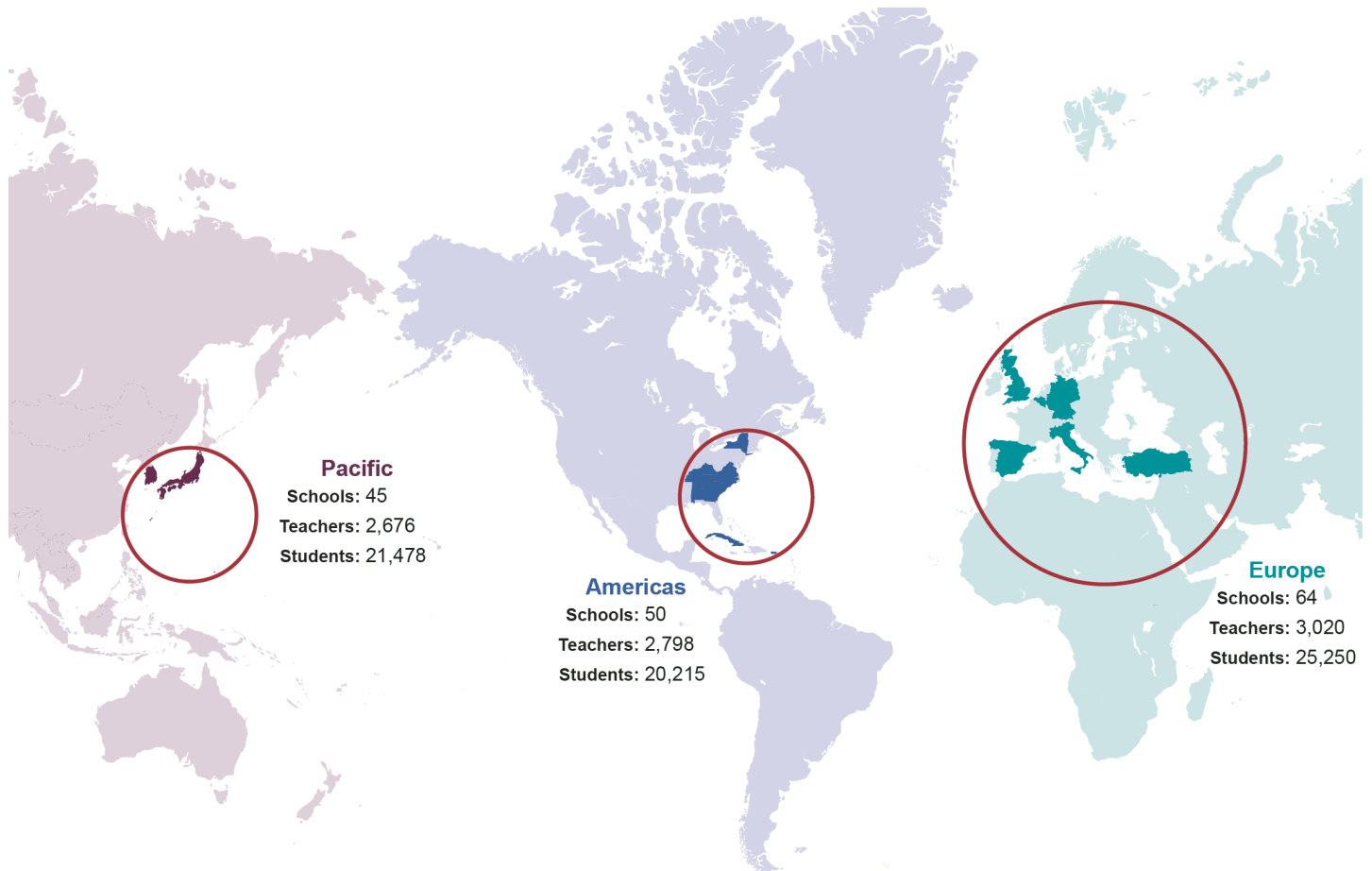
DODEA manages education programs for and provides educational opportunities and services to military and civilian dependents around the world. DODEA is primarily responsible for operating the DOD elementary

⁸The NFR Database is a centralized database that the Office of the Secretary of Defense, Chief Financial Officer, manages and DOD uses to contain all audit findings from each financial statement audit, among other things. According to DOD, this database provides accurate, real-time, independent information on the progress of DOD's financial statement audits. DOD managers use database reports to identify best practices, focus remediation efforts, and facilitate the development of solutions to department-wide challenges.

⁹Fiscal year 2021 DODEA overseas employees' payroll data were the most recent fiscal year data completed at the start of our audit.

and secondary school system, ensuring that students who attend DODEA schools are prepared for college or a career upon graduating from high school. DODEA's approximately 8,500 teachers (with about 5,700 stationed overseas) are civilians who teach more than 67,000 dependents of DOD's military service members and certain federal civilian employees residing on military installations. DODEA teachers and other employees work in three regions, encompassing 160 schools worldwide, as shown in figure 1.¹⁰ Students range from pre-kindergarten through grade 12.

Figure 1: Department of Defense Education Activity Regions, Schools, Teachers, and Students, School Year 2021–2022



Source: GAO analysis of Department of Defense information, Map Resources (base map). | GAO-24-105679

¹⁰Total includes a virtual school with approximately 700 students.

Accessible Text for Figure 1: Department of Defense Education Activity Regions, Schools, Teachers, and Students, School Year 2021–2022

Region	Schools	Teachers	Students
Pacific	45	2676	21478
Americas	50	2798	20215
Europe	64	3020	25520

Source: GAO analysis of Department of Defense information, Map Resources (base map). | GAO-24-105679

DOD Addressed Some Civilian Payroll NFRs, but Many Remain Open

We and other auditors have reported continuing deficiencies with DOD’s personnel and payroll processes and controls that affect all DOD employees, including civilian overseas employees. Since fiscal year 2018, independent public accounting firms auditing DOD’s annual financial statements have reported more than 100 NFRs across the department related to the CIVPAY system, as shown in table 1.¹¹

Table 1: DOD Civilian Payroll (CIVPAY) Notices of Findings and Recommendations (NFR) as of March 2023

Total CIVPAY NFRs ^a	Closed	No longer applicable	CIVPAY NFRs open
147	92	8	47

Source: GAO analysis of DOD data. | GAO-24-105679

^aNFRs are tracked in a DOD database that includes all NFRs issued since fiscal year 2018.

Closed NFRs addressed issues such as approving and maintaining time cards, gross pay reconciliation, and unsupported payroll allowances for some DOD components. The remaining 47 CIVPAY NFRs, which auditors have reissued from 2019, remained open as of March 2023. Each NFR could have one or multiple recommendations. We found that some of the common issues identified in the open NFRs are (1) not consistently maintaining documentation supporting the employees’ payroll and (2) payroll amounts not agreeing with calculations based on supporting documentation. These NFRs resulted from auditors testing DOD component controls and systems related to civilian payroll processes and identifying related deficiencies. As we previously reported,

¹¹None of the NFRs specifically mentioned DODEA because the auditors perform the audit of DOD’s financial statements at the component level, but DODEA was included in the scope of the DOD-wide financial statement audit.

DOD has developed corrective action plans and roadmaps to remediate these issues.¹² While it will take DOD some time to implement corrective actions, doing so should improve payroll documentation and validation.

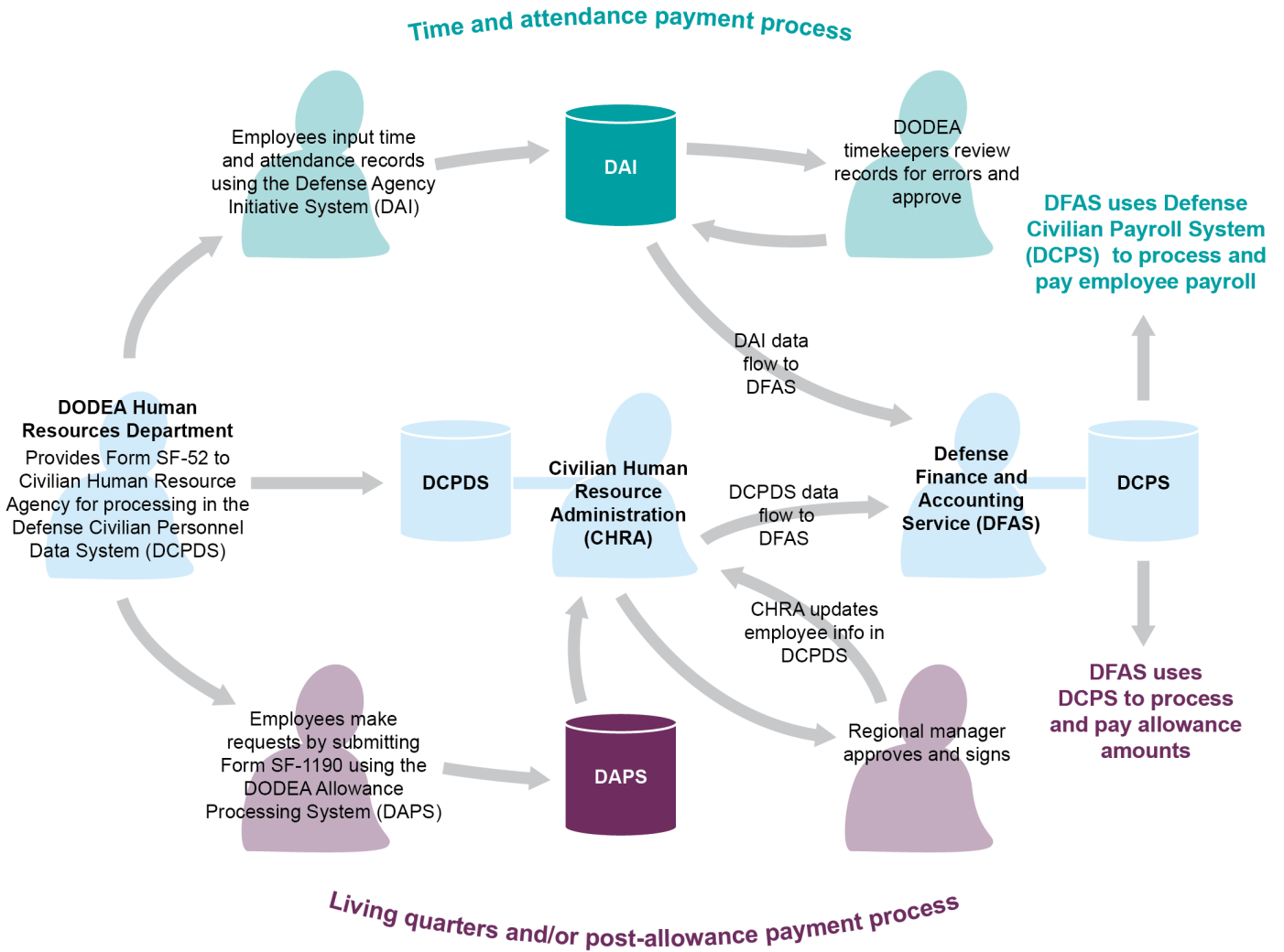
Selected Employees' Pay and Incentives Were Accurate, but Other Amounts and Adjustments Were Unsupported, Untimely, and Not Communicated

DODEA Personnel and Payroll Process

The DODEA personnel and payroll process involves three parties—DODEA, CHRA, and DFAS—and four information technology systems, as shown in figure 2.

¹²GAO, *DOD Financial Management: Additional Actions Needed to Achieve a Clean Audit Opinion on DOD's Financial Statements*, [GAO-23-105784](#) (Washington, D.C.: May 15, 2023).

Figure 2: Department of Defense Education Activity (DODEA) Personnel and Payroll Process



Source: GAO analysis of Department of Defense information, GAO (images). | GAO-24-105679

Accessible Text for Figure 2: Department of Defense Education Activity (DODEA) Personnel and Payroll Process

Process	Important process steps
Time and attendance payment process	<ul style="list-style-type: none"> • DODEA Human Resources Department Provides Form SF-52 to Civilian Human Resource Agency for processing in the Defense Civilian Personnel Data System (DCPDS)) • Employees input time and attendance records using the Defense Agency Initiative System (DAI) • DODEA timekeepers review records for errors and approve • DFAS uses Defense Civilian Payroll System (DCPS) to process and pay employee payroll
Living quarters and/or post-allowance payment process	<ul style="list-style-type: none"> • DODEA Human Resources Department (Provides Form SF-52 to Civilian Human Resource Agency for processing in the Defense Civilian Personnel Data System (DCPDS)) • Employees make requests by submitting Form SF-1190 using the DODEA Allowance Processing System (DAPS) • Regional manager approves and signs • DFAS uses DCPS to process and pay allowance amounts

Source: GAO analysis of Department of Defense information, GAO (images). | GAO-24-105679

The DODEA Human Resources Division hires staff for positions at DODEA-managed schools. Once staff are hired, CHRA creates a personnel file for each new employee in the Defense Civilian Personnel Data System (DCPDS) and is responsible for maintaining personnel documents. CHRA provides human resources support to more than 330,000 DOD civilian employees, of which DODEA employees are a small percentage.

DODEA employees prepare time and attendance records using the Defense Agency Initiative (DAI) system. DODEA timekeepers review time and attendance records for errors and approve time and attendance records in DAI. There are occasions when DODEA timekeepers must make adjustments after the approval.¹³ These adjustments fall into two categories: normal adjustments that occur in the course of any payroll—including retroactive pay—and adjustments for errors, including for

¹³Adjustments or corrections required because of changes after time and attendance information was approved should be processed promptly and be traceable to the pay period for which the correction applies. Electronic corrections for current period corrections and prior period adjustments must be made in accordance with the payroll office’s established procedural guidance. Time and attendance corrections, for pay periods no longer available electronically, will require a hard copy of the certified time and attendance, which the supervisor certified and forwarded to the payroll office. The payroll office will process the manual correction. An authorizing official should approve all changes.

inaccurate pay.¹⁴ DAI interfaces with the Defense Civilian Payroll System (DCPS), which DFAS uses to calculate and pay DODEA employees biweekly and to produce leave and earnings statements.

Overseas DODEA employees may be eligible for additional pay, such as post and living quarters allowances. DODEA employees use the DODEA Allowance Processing System to submit a request for living quarters allowance or post allowance payments. CHRA receives and reviews the request to ensure an employee is eligible and, if so, CHRA forwards the request to the regional manager for approval and signature. CHRA updates the employee's allowance information in DCPDS when it receives an approved living quarters or post allowance form. The updated employee information in DCPDS interfaces with the DFAS system, DCPS, so that the employee may receive the allowance along with biweekly pay.

The DOD *Financial Management Regulation* requires that payroll computations be based on various requirements and that one or more source documents support the payment of any entitlement.¹⁵ It also requires DFAS to maintain individual employee pay records that contain all transaction information related to payments and deductions with an audit trail to the authorizing source document. The Department of State provides guidance on calculating living quarter allowance and post allowance.¹⁶ The National Archives and Records Administration guidance for document retention requires agencies to retain for 3 years all source documents that substantiate employee pay.¹⁷ Further, the Standards for Internal Control in the Federal Government states that management should to clearly document all transactions and other significant events in

¹⁴Retroactive pay adjustments are complex calculations performed for each pay period from August 1 of the prior calendar year to April or May of the current year.

¹⁵Department of Defense, *Financial Management Regulation* 7000.14-R, vol. 8, "Civilian Pay Policy," prescribes the principles, objectives, and related requirements for DOD employee pay operations and systems. The authority of DOD to establish payroll procedures is derived from chapters 53, 55, and 81 of title 5 of the United States Code.

¹⁶Department of State, "Defense Department Teachers," ch. 700 of *Department of State Standardized Regulations* (Jan. 14, 2001).

¹⁷National Archives and Records Administration, *General Records Schedule 2.4: Employee Compensation and Benefits Records* (March 2022).

a manner that allows the documentation to be readily available for examination.¹⁸

Review of Pay Types and Payroll Records

Because of the complexity of the payroll data, to better understand the DODEA payroll process, we reviewed pay types and payroll records for 10 employees for which we were able to obtain evidence and supporting documents as described below. For the 10 DODEA employee records we reviewed in detail, regular pay and incentives were accurate and supported. However, in our review, we found instances of allowances and payroll deductions that were unsupported or inaccurate, which is consistent with NFRs other auditors have issued, as discussed above. The results of our review are not generalizable to the pay records of all DODEA overseas employees. See appendix I for more details on our methodology.

Regular Pay and Incentives

We reviewed payroll records for 10 overseas DODEA employees for 26 biweekly pay periods in fiscal year 2021. The review included all pay, such as regular pay and incentives.¹⁹ We reviewed regular pay and special act awards, extracurricular pay, and extra duty pay, received during fiscal year 2021, along with appropriate supporting documentation. We found that CHRA provided the appropriate supporting documentation for regular pay, special act awards, extracurricular, and extra duty pay. DFAS accurately computed regular pay, special act awards, extracurricular pay, and extra duty pay for the 10 employees we reviewed who received these types of pay during fiscal year 2021.

¹⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

¹⁹*Regular pay* means the total amount of pay received at a rate fixed by law or administrative action for the position held by an employee, including any special rate or any locality-based comparability payment or other similar payment under other legal authority before any deductions. *Regular pay* includes night and environmental differentials for prevailing rate employees. Recruitment, relocation, and retention incentives are compensation flexibilities available to help federal agencies recruit and retain employees.

Payroll Allowances

We reviewed the living quarters allowance and post allowance and supporting documents for 10 employee payroll records.²⁰ Of the 10 employees whose records we reviewed, five received a living quarters allowance and post allowance, but only one payroll record contained all relevant supporting documentation for these allowances. We were able to trace the amount paid to appropriate supporting documentation and verify that the living quarters allowance and post allowance paid agreed with the amounts we calculated for this one employee.

For three of the five employees who received both living quarters allowance and post allowance, amounts paid did not agree with amounts from the information on the supporting documentation. CHRA officials stated that one employee has not provided receipts to complete the mandatory reconciliation despite CHRA's repeated requests, and that the other two employees did not update the required forms when a change in living situation or number of dependents occurred. For the remaining employee, CHRA did not provide documentation, stating that it had not received the supporting forms from DODEA's prior personnel service provider.

Payroll Deductions

We reviewed the pay deductions for the 10 employees. For eight of the 10, at least one deduction to pay was not adequately supported as follows:

- CHRA and DODEA were unable to provide us the employee federal withholding for eight of the 10 payroll records we reviewed because they did not receive them from the prior human resource servicing agency. Further, CHRA officials stated that the supporting documentation for employee organization deductions was unavailable for three of the eight.
- Supporting documentation was no longer available for a Thrift Savings Plan-Roth deduction for one of the eight, who had retired.

²⁰The Secretary of State establishes allowances payable to employees officially stationed in foreign areas and publishes them in the Department of State Standardized Regulations. We reviewed the living quarters and post allowances.

-
- The amount deducted was not the percentage the employee had requested for a Thrift Savings Plan-Roth deduction for one of the eight.

Review of Adjustments and Changes in Pay and Communication to Employees

To better understand adjustments and changes in pay and how DOD communicated them as part of the DODEA payroll process, we reviewed payroll records for 24 employees for which we were able to obtain supporting documents as described below. Twenty-one of the 24 employees had adjustments, while three employees had none. Adjustments include corrections and other changes to data in official records. For 21 of the 24 employee records we reviewed, DOD did not process adjustments timely nor communicate them adequately.

Pay Adjustments

The DOD *Financial Management Regulation* requires that payroll adjustments should be processed promptly and be traceable to the pay period for which the correction applies. These adjustments include retroactive pay, rate changes due to the number of days in the school year, and changes to time cards.

Retroactive pay. The DOD *Financial Management Regulation* requires the human resources office to process retroactive pay adjustments annually for the prior year's teachers' pay.²¹ DFAS reconciles each teacher's pay and makes any necessary adjustments based on increases in salary.

Number of days in the school year rate changes. The DOD *Financial Management Regulation* states that DODEA overseas school year calendars may vary, due to local customs and holidays.

Corrections to time cards. The DOD *Financial Management Regulation* requires that entities promptly process adjustments or corrections required because of changes made after time and attendance information was approved. The regulation provides guidance for timely and accurate

²¹20 U.S.C. § 903 requires the Secretary of Defense to fix the compensation for teachers and teaching positions in DOD at rates equal to the average of the range of rates of compensation for similar positions with comparable levels of duties and responsibilities in U.S. urban school jurisdictions with populations of 100,000 or more.

payment to employees entitled to be paid in compliance with appropriate statutes and regulations. Employees are required to be informed in writing as to the nature and amount of the changes in gross pay from one pay period to the next. This information may be included on each employee's leave and earnings statement rather than a separate written advisory. The notification must be in sufficient detail to show total pay, allowances, deductions, and net pay.

DFAS provides a summary of the adjustment title and amount on the leave and earning statements. The retroactive pay adjustments are paid in a lump sum. These pay adjustments may include multiple adjustments less deductions resulting in a net adjustment to pay received.

According to DFAS, 57 adjustments were processed for 21 employees' pay during fiscal year 2021; of these, 23 were retroactive pay adjustments. DFAS paid those adjustments in a lump sum, without providing full details on the employees' leave and earnings statements. Adjustments are driven by their effective dates and can affect multiple payroll processing periods.

The number of adjustments for each of the 21 employees ranged from a low of one to a high of nine. For those same employees, the amount of time it took DOD to process the adjustments ranged from a low of one biweekly pay period to a high of 34 biweekly pay periods. According to DFAS officials, these delays were attributable to either normal business processes for corrective actions initiated by human resource offices, timekeepers, or employee generated changes that are not sent timely to DFAS to process.

Communication with Employees

For the 21 employees with adjustments, we found that DOD did not adequately communicate changes to pay to employees. Employees received several notifications on adjustments made to their payroll record or on self-initiated corrections. For example, DFAS presented adjustments in leave and earnings statements without detail such as notes and remarks showing start and end dates, periods covered for retroactive pay, or the nature and calculation of hours or amounts. Although these various forms and documents disclosed the net effect of an adjustment, the specifics of the transaction such as detailed calculations and any deductions were not evident to the employee.

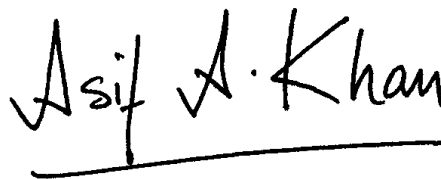
Other auditors have issued NFRs concerning DOD civilian payroll issues that relate to the instances we observed. DOD has developed corrective action plans and roadmaps to remediate these issues, but they will take some time to effectively implement according to DOD.²² Additionally, the number of DODEA employees we were able to review was too small to support generalizable conclusions. Therefore, we are not making any further recommendations in this report.

Agency Comments

We provided a draft of this report to DOD for review and comment. On behalf of DOD, DFAS provided technical comments, which we incorporated, as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Director of the Department of Defense Education Activity, the Director of the Civilian Human Resources Agency, the Director of the Defense Finance and Accounting Service, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9869 or khana@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.



Asif A. Khan
Director, Financial Management and Assurance

²²[GAO-23-105784](#).

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) describe the status of the Department of Defense's (DOD) efforts to address auditors' prior recommendations to improve its civilian payroll (CIVPAY) system, which includes overseas Department of Defense Education Activity (DODEA) employees, and (2) examine the process DOD uses to calculate overseas DODEA employees' pay, including base pay, differentials, additional allowances, and deductions, and how the department communicated payroll changes to employees.

To address our first objective, we obtained data containing all open CIVPAY notices of findings and recommendations (NFR) as of September 30, 2022, from the NFR Database. The database is where DOD's financial statement auditors provide NFR information to the Office of the Deputy Chief Financial Officer.¹ Using filters on the NFR category field, we extracted the NFRs identified as CIVPAY and any others related to CIVPAY. This resulted in 147 NFRs, issued since fiscal year 2017. Of the 147 NFRs, 92 were closed, eight no longer applied, and the remaining 47 were open as of March 17, 2023. All 47 open NFRs were those auditors reissued from prior years. We reviewed the nature and timing of these CIVPAY NFRs and identified common issues that DOD still needs to address.

To address our second objective, we interviewed DODEA, Civilian Human Resources Agency (CHRA), and Defense Finance and Accounting Service (DFAS) representatives to gain an understanding of the payroll process. We requested and received from DFAS a database of overseas DODEA employees paid in fiscal year 2021. Fiscal year 2021 DODEA overseas employees' payroll data were the most recent fiscal year data completed at the start of our audit. We reviewed the data received and confirmed that the number of records DFAS provided was the same number of records on the memo certifying the number sent. We

¹The NFR Database is a centralized database that the Office of the Secretary of Defense, Chief Financial Officer, manages and DOD uses to contain all audit findings from each financial statement audit, among other things. According to DOD, this database provides accurate, real-time, independent information on the progress of DOD's financial statement audits. DOD managers use database reports to identify best practices, focus remediation efforts, and facilitate the development of solutions to department-wide challenges.

reviewed the data received for any missing or duplicative data. We selected a statistical sample of 93 overseas employees from a population of 9,237 paid in fiscal year 2021.²

As planned, we intended to trace pay elements to supporting documentation for all 93 employee records selected in the random sample. However, because of the complexity of the DOD payroll data, it took much longer than expected to obtain the necessary information from DOD and to complete the testing. Under the circumstances, we determined that it would not be practical to complete the full review of all 93 sampled records and instead stopped testing after tracing data elements to supporting documentation for the 26 biweekly pay periods in fiscal year 2021 for the first 10 employee records in the sample. In addition, early in the analysis we found errors, inconsistencies, or discrepancies in the records similar to the issues identified in the prior NFRs. We were able to complete the tracing of data elements to supporting documentation for 10 of the 93 in-scope employee records selected in the sample. Therefore, the results cannot be generalized. We did, however, use this work to better understand the DODEA payroll process and provide, as examples, some discrepancies we found in the records for those 10 employees.

We reviewed additions and subtractions to pay to authorizing source documents and verified the calculations using the applicable criteria, as shown in table 2.

²We planned the sample using a 5 percent tolerable error and a 1 percent expected error at 95 percent confidence level.

Appendix I: Objectives, Scope, and Methodology

Table 2: Elements of Pay Reviewed, Related Supporting Documentation, and Criteria

Element of pay	Supporting documentation	Criteria
Regular pay	Request for Personnel Action - Standard Form (SF) 50	DOD Financial Management Regulation, 7000.14R, vol. 8, ch. 7, "Civilian Pay Policy"
Special act/awards	Request for Personnel Action - Standard Form (SF) 50	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch. 7, "Civilian Pay Policy" Title 5, U.S.C., ch. 45, pt. 451.
Educators extracurricular pay	Certification for Extra Duty Compensation (EDC)	DODEA Procedural Guide No. 14-PGRMD-20, Processes for Extra Duty Compensation and Extracurricular Duty Assignment
Extra duty pay	Certification for Extra Duty Compensation (EDC)	DODEA Procedural Guide No. 14-PGRMD-20, Processes for Extra Duty Compensation and Extracurricular Duty Assignment
Living quarters allowance	Foreign Allowances Application, Grant and Report (SF-1190); LQA - Living Quarters Allowance Annual/Interim Expenditures Worksheet (DSSR 130)	Aug. 1, 2021 - Department of State Standardized Regulations - Final
Post allowance	Foreign Allowances Application, Grant and Report (SF-1190)	Aug. 1, 2021 - Department of State Standardized Regulations - Final
Income tax withholding	IRS Employee Withholding Certificate, Form W-4	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch.7, "Civilian Pay Policy," sec. I 2020, 2021 Internal Revenue Service Publication 15-T
Old-age, Survivors, and Disability Insurance	Recalculated the applicable 6.2 percent subject to Old-Age, Survivors, and Disability Insurance	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch. 7, "Civilian Pay Policy" 2020, 2021 Internal Revenue Service Publication 15-T
Medicare	Recalculated the applicable 1.45 percent of wages subject to Medicare	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch. 7, "Civilian Pay Policy" 2020, 2021 Internal Revenue Service Publication 15-T
Federal Employees' Health Benefits	Request for Personnel Action - Standard Form (SF) 50	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch. 7, "Civilian Pay Policy" Office of Personnel (OPM) Non-Postal Premium Rates for the Federal Employees Health Benefits Program tables
Federal Employees' Group Life Insurance	Request for Personnel Action - Standard Form (SF) 50	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch. 7, "Civilian Pay Policy" OPM's Federal Employees' Group Life Insurance (FEGLI) guidance
Thrift Savings Plan	Employee Thrift Savings Plan Elections Form TSP-1	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch.7, "Civilian Pay Policy" OPM's Thrift Savings Plan (TSP) Guidance
Roth Thrift Savings Plan	Thrift Savings Plan Elections Form TSP-1	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch. 7, "Civilian Pay Policy" OPM's Thrift Savings Plan (TSP) Guidance
Deductions for debt created in the current or prior year	Employee payroll data the Defense Finance and Accounting Service provided	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch. 7, "Civilian Pay Policy"

Appendix I: Objectives, Scope, and Methodology

Element of pay	Supporting documentation	Criteria
Employee organizations	Overseas Federation of Teachers (OFT) Agreement	DOD Financial Management Regulation, 7000.14-R, vol. 8, ch. 7, "Civilian Pay Policy"

Source: GAO analysis of cited criteria. | GAO-24-105679

We spot checked 24 of the 93 selected overseas DODEA in-scope employee records to determine if DFAS processed adjustments made to regular pay during fiscal year 2021 in a timely manner and if CHRA adequately communicated them to employees.³ To determine the total number of adjustments, we added the number of adjustments DFAS made to these 24 employees' pay. Further, to assess whether adjustments were timely processed, we calculated the number of pay periods between the pay period effective date and the pay period in which an adjustment was made. We were able to review adjustments for 24 of the 93 in-scope employee records selected in the sample, as well as documents related to how DOD communicated the details of these adjustments to employees. Given the size of the sample we were able to review, the results cannot be generalized.

We conducted this performance audit from January 2022 to January 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Asif Khan, (202) 512-9869 or khana@gao.gov.

Staff Acknowledgments

In addition to the contact named above, Roger R. Stoltz (Assistant Director), Sheila D. Miller (Analyst in Charge), Sharon Byrd, Anthony Clark, Stephen Duncan, Patrick Frey, Leticia Gonzalez, Jason Kelly, Anne Rhodes-Kline, and Michael LaForge made key contributions to this report.

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